

INCOMING TELEGRAM

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Department of State

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Action

Control: 45

Rec'd: MAY 1, 1956

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FROM: LONDON

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TO: Secretary of State

NO: 4983, APRIL 30, 6 PM

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UK

REFERENCES: (A) EMBTEL 4078, MARCH 20, 1956

(B) DEPTEL 5551, MARCH 23, 1956

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GEN. COUN.

GOVERNMENT HAS INTRODUCED CHANGE IN UK TAX LAW OUTLINED
REF.(A). FINANCE BILL, WHICH GIVES PERMANENT EFFECT
TO TAX MEASURES ANNOUNCED IN RECENT BUDGET, PROVIDES
THAT PERSONS "NOT ORDINARILY RESIDENT" IN UK WILL
HENCEFORTH BE TAXED ON "ANY EMOLUMENTS IN RESPECT
OF DUTIES PERFORMED IN UK." AMERICAN EMPLOYEES OF US
FIRMS HAVE HERETOFORE BEEN TAXED BY BRITISH NOT ON
ENTIRE INCOME BUT ONLY ON THAT PORTION RECEIVED IN UK,
EVEN THOUGH DUTIES PERFORMED WHOLLY IN BRITAIN.

AMERICAN BUSINESSMEN HERE SAY INITIAL IMPRESSION IS
THAT MANY OF THEM MAY HAVE TO LEAVE UK SINCE HEAVY
AND STEEPLY PROGRESSIVE BRITISH TAX WILL BE LEVIED
ON THEIR ENTIRE SALARIES. THEY SAY SOME U.S. COMPANIES
WILL MOVE TO CONTINENT, SOME WILL REPLACE AMERICANS
WITH BRITISH MANAGERS. THEY CLAIM TAX CHANGE WILL
SERIOUSLY DISCOURAGE U.S. INVESTMENT IN BRITAIN.

PRIOR INTRODUCTION BILL EMB EXPLAINED FULLY TO
FINANCIAL SECRETARY TREASURY THE PROBABLE REACTION OF
U.S. BUSINESSMEN AND ADVERSE EFFECTS FOR U.K.
IF THERE WAS LARGE SCALE EXODUS. HE ADVISED EMB TODAY
THAT THESE IMPLICATIONS WERE IN FACT CONSIDERED BY
CHANCELLOR. EMB MADE CLEAR U.S. WAS NOT PROTESTING
PRINCIPLE OF PROPOSED CHANGE.

FINANCE BILL WILL BE DEBATED OVER COMING WEEKS. HOWEVER,
GOVERNMENT UNLIKELY AGREE SIGNIFICANT CHANGE.

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